

# NEWSLINE EIGHT

Volume 14 December 2008

SBA's Monthly  
News Update  
-SERVING-

COLORADO

MONTANA

NORTH DAKOTA

SOUTH DAKOTA

UTAH

WYOMING

Newsline Eight is circulated to our resource and lending partners by SBA's Region Eight Office

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Helping small businesses  
**start, grow and succeed.**



Your Small Business Resource

## Five Creative Ways to Start a New Small Business in a Turbulent Economy By Russell Smith, Regional Administrator

Creating a start-up business during turbulent economic times can be a challenging task. But business ownership can be immensely rewarding, and with good business practices, the chances of success can be good. Research by the U.S. Small Business Administration shows that nearly three-quarters of all new businesses (with or without employees) survive two years or more, approximately half survive four years or more, and about 40 percent survive six years or more. Especially in times like these, people thinking about starting a business should understand the reasons why small businesses fail, and may want to consider creative alternatives to becoming a small business owner.

Small firms fail for a number of reasons including: **Insufficient capital (money).** Start-up businesses with \$50,000 or more in initial capital have a much better chance of keeping their doors open. You will have to pay vendors, employees, utilities, rent, and a wide variety of other expenses. Plan on having a minimum of six months cash available to keep the business operating. **Lack of management experience.**

Many new entrepreneurs have the passion to start a company, but lack the day-to-day management skills to run a business. You may love to ski, and think you want to run a ski supply company. In addition to having a passion for skiing, you need to prepare yourself for the business aspects of starting a company too. Those include: understanding cash flows, marketing, and who your customers are. **Poor business location.** If customers cannot readily find your business location, they won't buy your products and services. **Poor inventory management.** Too much inventory will kill your cash flow. This is an issue many new businesses have, and many owners have no clue how to manage it.

**Lack of initial planning.** This includes the misuse of personal assets to fund the business, how to handle unexpected sales growth, poor sales in the first 90 days of business, understaffing, and unreliable vendors. That is why our mantra is "business plan, business plan, business plan."

### Five Creative Ways to Start a New Business:

#### 1. Purchase an undervalued existing business.

During turbulent economic times, many owners may be forced to sell their businesses for various reasons. This creates an opportunity for people with capital to purchase an existing business on more reasonable terms than they would have paid a year ago. Other advantages for buying an existing business include: Established

businesses are "ready for business" on day one; Business assets and equipment may already be in place; Established client base. People are already aware that the business exists; Lenders will more likely provide financing to existing businesses.; Trained experienced employees and staff are in place.



#### 2. Exchange salary for equity position in business.

Most existing businesses are hungry to hire experienced, driven and innovative employees. Cash-strapped businesses that are growing, but need new talent, may be willing to exchange an equity or stock position in the company in lieu of a traditional salary and/or benefits package. This new equity position could eventually provide an employee with an ownership opportunity in the company. Consider working part-time at a new start-up business, while maintaining your regular job, in order to learn the business and eventually make an offer to purchase the firm at a future time.

**3. Virtual office is the wave of the future.** There are many creative alternatives to the traditional office or retail space. The Internet is a great way to market, promote and distribute your products and services. Working from home, and utilizing "shared office services", are other ways to create a virtual office space. Additionally, virtual offices may significantly reduce the cost of your start-up.

Story Continued on page two

## UTAH DO HOLIDAY OPEN HOUSE

The Utah District Office will hold its annual Holiday Open House on Thursday, December 11<sup>th</sup> from 1:30 pm to 3:00 pm at the Utah District Office, 125 South State Street, in downtown Salt Lake City. Each year the Utah District Office employees host this event to thank the lenders, resource partners and community leaders. Homemade treats, entertainment, and lots of holiday cheer will make this event fun for all who that attend. For more information, please contact the SBA's Georgia Yoshida at (801) 524-3217.

### Five Creative Ways to Start a New Small Business continued

**4. Establish alternative and innovative means to obtain capital.** An under-capitalized business start-up is a losing proposition. This is especially true during the current economic times. Obtain capital by bolstering your personal savings in advance of starting your business. Friends and family financing is always an option. Friends and family may provide their money in exchange for a stock or equity position in your company. Or, start your business very slowly, and use the cash flow to build up over time, without taking on any equity or debt. The less debt you incur today, the better prepared you will be when the economy improves.

**5. Leverage outside counseling before starting your new business.** Now is the time to make an appointment with one of the SBA's many resource partners – including SCORE and the Small Business Development Centers. We can help you develop a well-defined and comprehensive business plan, realistic financial statements, and an extensive marketing strategy. Studies have shown that entrepreneurs who put a minimum of one year of planning into their new business have a better chance of succeeding in their new ventures.

Starting a new small business can be a very exciting experience. Though the risks can be high, the rewards can be great. The SBA is here throughout the entire journey, and our goal is make the experience a good one. For more information on our programs and services, please contact your local SBA office or go to our website located at [www.sba.gov](http://www.sba.gov).

## SBA's Natural Resources Sales Assistance Program—a best kept secret

The federal government sells natural resources and surplus property authorized for sale in accordance with public law. The objective of SBA's Natural Resources Sales Assistance Program is to ensure that small businesses obtain a fair share of those federal government property sales and leases. One of the natural resources sold by the federal government is timber and related forest products.

The "Small Business Timber Sale set-aside Program" ensures that small mills receive a "fair share" of federal timber sales. "Fair share" is defined by recalculating the share for each distinctive market every five years. "Small mills" are defined as having 500 or fewer employees, including all affiliates. In Region VIII, timber is regularly sold from federal forests managed by the U.S. Department of Agriculture's Forest Service and the U.S. Department of the Interior's Bureau of Land Management in every state except North Dakota. In fiscal year 2007, the timber sales sold by the Forest Service in Region VIII totaled 535,688 cubic feet (Ccf) for \$22,752,993, and in fiscal year 2008 the volume sold was 417,761 Ccf for \$12,933,320. SBA's Natural Resources Sales Assistance Program personnel work closely with these federal agencies to ensure opportunities for small businesses to bid on federal timber sales. When small businesses fail to purchase a fair share of saw timber from these timber sales, saw timber sales are then set-aside for bidding by small businesses.

Other resources covered by this program are Royalty Oil (oil sold by the Federal Government to small business refineries), leases involving rights to minerals (such as coal, oil, and gas), and surplus real and personal property. SBA provides counseling and other assistance to small businesses on these government timber sales, Royalty Oil sales, Lease sales, and surplus property sales.

If you have a question or need assistance concerning the purchase of natural resources from federal sources please contact the SBA as listed below. For Timber Sales and surplus property sales in Utah and Western Wyoming: Contact Bill Bramwell, Seattle, WA (206-553-8544 / [William.bramwell@sba.gov](mailto:William.bramwell@sba.gov)).

For Timber Sales, Royalty Oil sales, lease sales, and surplus property sales in Colorado, Montana, Wyoming, South Dakota, and North Dakota: Contact Tom Clarke, Denver, CO (303-844-2607 ext 266 / [Thomas.clarke@sba.gov](mailto:Thomas.clarke@sba.gov)).

## SBA Applauds Treasury Action to Bolster Secondary Market for Small Business Loans

A plan by the Treasury and the Federal Reserve to improve market conditions for asset-backed securities – including those composed of SBA-backed small business loans – should be welcome news to credit-hungry small businesses across the country, said U.S. Small Business Administration Acting Administrator Sandy K. Baruah.

The plan, announced by Treasury Secretary Henry Paulson, establishes the Term Asset-Backed Securities Loan Facility, or TALF, to breathe new life into a secondary market that essentially ground to a halt in October. The TALF would make loans to investors who purchase asset-backed securities made up of small business loans guaranteed by SBA, auto loans, student loans, or credit card loans. As a result, lenders will find it easier to sell the loans they make, and use the proceeds of those sales to make new loans. “The approach is a significant and important breakthrough in our efforts to help unclog the secondary market and to help restore the flow of credit and credit products to normal levels,” said Baruah. “This is a big step toward reviving a healthy market for investors who want to purchase secondary market loan pools of SBA loans. I believe it will help restore the flow of buying activity in what has been a disrupted secondary market for SBA-backed loans and generate the liquidity lenders need to step up their lending to small businesses. “We expect these efforts to help free up the capital both brokers and investors need to purchase new SBA loans,” Baruah said. “As this cycle continues, we expect secondary market activity to begin to return to normal levels. “We will continue to work with the Treasury and the Federal Reserve, and with our partners in the SBA lending industry to reinvigorate the secondary market for SBA guaranteed securities to help craft solutions to bring much needed capital to the nation’s small businesses,” Baruah said.

About \$4 billion in securities backed by SBA-guaranteed loans are bought and sold in the secondary market each year, with the total outstanding amounting to about \$15 billion. At present, a share of the current year’s volume of loans securitized by lenders – estimated at up to \$3 billion – is essentially frozen. The resulting lack of liquidity hampers the ability of some of SBA’s lending partners to make new SBA-backed loans. The loans that investors will receive from TALF through this new action can be used to purchase these securities from brokers.

## Small Business Continues To Nominate Federal Rules In Need Of Review and Reform

*by Jim Henderson, Regional Advocate*

Small businesses and their representatives are continuing to nominate federal rules in need of review and reform. Nominations for the 2009 Top 10 Rules for Review and Reform are being received from across the country and a variety of industries. They are in response to the Office of Advocacy’s Regulatory Review and Reform (r3) initiative. The deadline for submission is Dec. 31, 2008. “Momentum is building for the second year of the r3 initiative’s Top 10 list,” said Shawne McGibbon, acting Chief Counsel for Advocacy. “With the success of last year’s Top 10, small business understands that making constructive suggestions for how to improve current rules can result in federal agency action.” Several of the 2008 Top 10 rules have been reviewed and reformed during the year. For example, in October the EPA encouraged small businesses to recycle and reclaim their spent materials by reforming the “definition of solid waste.” By reviewing and reforming the definition, EPA is encouraging recycling rather than disposal of certain spent materials. Moreover, Congress also recognizes the potential the r3 initiative has for unburdening small business in a time of economic uncertainty. In July, Chairman Charles Gonzalez (D-TX) of the Regulations, Healthcare, and Trade Subcommittee of the U.S. House Small Business Committee held an oversight hearing on “Regulatory Burdens on Small Firms: What Rules Need Reforms?” that examined the 2008 r3 Top 10 Rules for Review and Reform. That hearing resulted in the introduction of the Home Office Tax Deduction Simplification and Improvement Act (H.R. 7074). The bill simplifies the home office deduction by introducing a standard deduction for small business owners. It is similar to S. 3371, introduced earlier this year by Senator Olympia Snowe (R-ME). Simplification of the home office deduction was one of the 2008 Top 10 nominations. The Office of Advocacy of the U.S. Small Business Administration is still seeking nominations of federal rules in need of review and reform. Early next year, the Office of Advocacy will transmit the 2009 Top 10 rules nominated by small business owners, trade associations, to the appropriate federal agencies for review and reform. Nominate regulations needing review and reform by visiting the Office of Advocacy r3 website at [www.sba.gov/advo/r3](http://www.sba.gov/advo/r3), by sending an email to [advocacy@sba.gov](mailto:advocacy@sba.gov), or by calling Keith Holman at (202) 205-6533. Again, nominations are due by December 31, 2008.

## NORTH DAKOTA TAX TIPS ONLINE COURSE

**The Top Ten Tax Tips for Small & Growing Business Workshop** is being offered on December 17th from 10:00am to 11:00 am in an online webinar format. Webinars are education sessions presented by a live instructor on the phone and are supported by a visual presentation delivered over the Internet. It is a great way to learn valuable information without leaving your home or office. To participate, you will need an internet connection and separate phone connection. At the time of the webinar, dial 1-866-740-1260 and enter access code 3087502; then go to <http://sba.readytalk.com> and enter the same access code. For more information, contact

## SBA ALLOWS USE OF LIBOR RATE

In response to the credit crunch, today SBA's Acting Administrator Sandy K. Baruah announced important loan program changes to help the agency's lending partners increase access to capital for small businesses.

First, an interim final rule allowing new SBA loans to be made with an alternative base interest rate, the one month LIBOR rate (London Interbank Offered Rate), in addition to the prime rate, which was previously allowed. In the past 60 days, both the prime and LIBOR rates have not yet returned to their historical relationship—of roughly 300 basis points between the two rates. The mismatch between the rates is squeezing SBA lenders out of the lending market, since their costs are based on the LIBOR rate.

"This change will help more small businesses obtain capital to grow their businesses and create new jobs," Baruah said. "By allowing both rates, SBA is making its programs more flexible, increasing opportunities to access capital and giving both lending partners and small business customers more options to meet their needs."

The second change allows a new structure for assembling SBA loans into pools for sale in the secondary market. The enhanced flexibility in loan pool structures can help affect profitability and liquidity in the secondary market for SBA guaranteed loans, especially with the current market conditions. Because the average interest rate is used, these pools are easier for pool assemblers to create, thus providing incentives for more investors to bid on these loans.

"The challenge small businesses face today is not the cost of capital, it is access to capital," said Baruah. "Interest rates are at historically low levels meaning money is inexpensive, yet lenders aren't lending and borrowers aren't borrowing. This indicates markets are frozen due to liquidity concerns. This interim final rule is an important step to reenergize the lenders to make SBA-backed loans and will help open the gateway of capital for entrepreneurs."

"SBA moved quickly on these changes after consulting with small businesses, lending partners and other government agencies," said Eric R. Zarnikow, SBA's Associate Administrator for the Office of Capital Access. "We're confident these solutions will help free up capital so lenders can continue to make SBA-backed loans."

By addressing market issues that were impeding the funding streams for both lenders and small businesses, SBA is making capital more available to America's small businesses. The SBA will be issuing additional technical guidance to lenders in the coming weeks relating to the implementation of these important changes.

For more information on the interim final rule or to share your comments, visit [www.regulations.gov](http://www.regulations.gov). To learn more about SBA's guaranteed loan programs visit [www.sba.gov](http://www.sba.gov).

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